

Sime Darby (SIME MK)

Robust Outlook For Industrial Division; China Motors Remains A Drag

Highlights

- Management remains focused on achieving its ROE target of 11% by FY30 through disciplined cost optimisation and margin enhancement across the main divisions.
- Industrials and UMW divisions underpin earnings visibility while prolonged recovery of the motors division remains uncertain.
- Maintain HOLD with a higher target price of RM2.40. We revised the valuation to reflect the underlying value of MVV land for potential monetisation and the industrial division as a proxy to the structural growth in Australia's mining sector.

Analysis

- Targets 11% ROE.** Sime Darby (Sime) maintained its strategic target of achieving an 11% ROE by FY30, which translates into a net profit of over RM2b from FY25 core net profit of RM1.16b (6.2% ROE). Management intends to achieve this target through: a) disciplined cost optimisation, b) closure of non-performing businesses, and c) margin improvement. While the motors division continues to lag behind the targeted returns, management is optimistic that UMW and industrial will be able to deliver a mid-teens ROE by FY30.
- Robust outlook for industrial despite short-term headwinds.** The industrial division is facing some short-term headwinds due to customers deferring maintenance, volatility of foreign exchange, which could have an impact on Caterpillar's parts-price revision and lower earnings translation following the strengthening of the ringgit. That said, the long-term outlook remains robust, underpinned by expansion in Australia's mining industry amid strong commodity demand and elevated prices. Through its Cavpower operation in South Australia, Sime is well-positioned to benefit from BHP's significant investment in the Olympic Dam mining complex, where BHP is targeting to triple its copper production to 1Mt p.a. by 2030.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	67,132	70,061	72,744	73,401	74,093
EBITDA	3,767	4,348	3,154	3,247	3,257
Operating profit	2,498	3,079	1,952	2,057	2,077
Net profit (rep./act.)	1,258	2,054	1,262	1,295	1,317
Net profit (adj.)	1,275	1,160	1,262	1,295	1,317
EPS	20.1	17.0	18.5	19.0	19.3
PE (x)	10.0	11.8	12.7	12.4	12.2
P/B (x)	0.7	0.7	0.7	0.6	0.6
EV/EBITDA (x)	7.5	5.8	8.6	8.4	8.4
Dividend yield (%)	6.5	7.0	6.0	6.0	6.2
Net margin (%)	1.9	1.7	1.7	1.8	1.8
Net debt/(cash) to equity(%)	38	22	29	28	26
Interest cover (x)	6.5	8.0	8.4	7.4	7.5
ROE (%)	6.9	11.0	6.7	6.8	6.8
Consensus net profit	-	-	1316	1383	1435
UOBKH/Consensus (x)	-	-	0.96	0.94	0.92

Source: Sime Darby, Bloomberg, UOB Kay Hian

HOLD (Maintained)

Share Price	RM2.35
Target Price	RM2.40
Upside	2.13%
Previous TP	RM2.19

Analyst(s)

Amerul Iqmal

ameruliqmal@uobkayhian.com
(603) 2143 1998

Stock Data

GICS Sector	Industrials
Bloomberg ticker	SIME MK
Shares issued (m)	6,815.6
Market cap (RMm)	16,029.4
Market cap (US\$m)	4,007.2
3-mth avg daily t'over (US\$m)	0.4

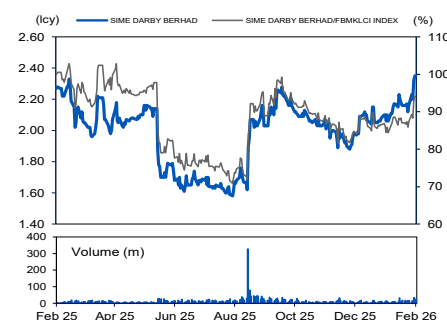
Price Performance (%)

52-week high/low				RM2.38/RM1.56
1mth	3mth	6mth	1yr	YTD
11.9	15.2	45.1	4.4	14.6

Major Shareholders

	%
AmanahRaya Trustees Berhad	39.1
Permodalan Nasional Berhad	16.0
EPF	7.6

Price Chart



Source: Bloomberg

Company Description

A conglomerate company, involved in businesses including motor vehicle and heavy equipment distribution across Asia and Australasia regions.

- The industrial division's core operation should also remain intact, with expected margin expansion from positive parts-price revision in Jul 25 and growing contributions from after-sales services (>50% of industrial's revenue) which command higher margins of 16-17% compared with equipment sales. Additionally, Sime is benefitting from the rapid development of data centres in Malaysia and Singapore through the supply of Caterpillar's power systems.
- **Pressure persists in the motors division.** Sime continues to streamline its China operations through outlets consolidation and overheads reduction, while receiving support from principal in the form of special rebates and dealership consolidation, which allow Sime to boost its market share. However, the China auto market remains challenging with BMW recording another sales decline in 4Q25. As such, we do not foresee an immediate turnaround in the motors division.
- **Steady performance from UMW.** Perodua further solidified its position as Malaysia's leading automaker in 2025, while Toyota's sales remained resilient despite the influx of Chinese OEMs. The newly-launched Perodua Traz has received encouraging response with 2,294 units of bookings since its introduction, surpassing the company's internal target of 2,000 units per month. Despite the lukewarm reception of Perodua's first EV, we noted that Perodua is not expecting significant impairment for its investment in the EV project. In addition, the company is undertaking production streamlining activities through local outsourcing and plans to increase the EV's local content from 30% to 60% in the near term, enabling it to qualify for higher tax incentives.

Valuation/Recommendation

- **Maintain HOLD with a higher SOTP-based target price of RM2.40 (previously RM2.19).** We have revised our valuation methodology from PE based to SOTP to better reflect the underlying value of: a) Sime's Malaysia Vision Valley (MVV) land for potential monetisation; and b) the industrial division, which we believe warrants a premium valuation comparable to its Australian peer (Seven Group Holdings) given its high-margin business and strong exposure to Australia's mining expansion.
- Sime offers an attractive dividend yield of 5.95% based on our FY26 forecast DPS of 14 sen, and management remains committed to exploring a special dividend following any non-core asset disposals.

Earnings Revision/Risk

- No changes to earnings forecast.

Environmental, Social and Governance (ESG)

Environmental

- Sime Darby adopts LED lighting and solar panels, increasing renewable energy generation and reducing carbon emissions by 563 tonnes.
- Rigorous tracking and reporting support the company's goal of a 30% emissions reduction by 2030.

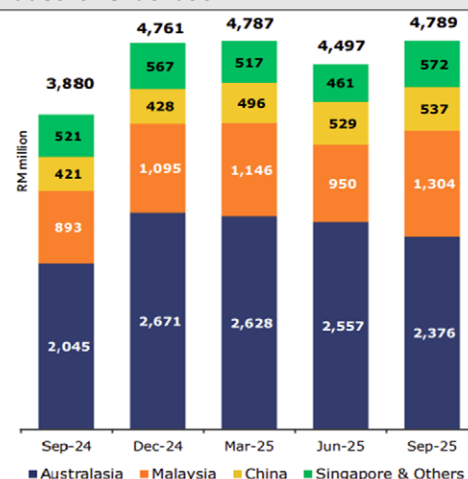
Social

- Efforts to comply with the Malaysian Employment Act 2022 have enhanced workplace fairness and employee wellbeing.

Governance

- The board of 12 members, including six independent and six non-independent directors, with 18% women, boasts diverse expertise to govern, strategise, and engage stakeholders effectively.

Industrial Orderbook



Source: Sime Darby

SOTP Valuation

	Value (RM m)	Description
Industrial	10,867	2026F PE of 18x, equivalent to SHG's 5-year mean.
Motors	3,234	2026F PE of 10x
UMW	4,487	2026F PE of 12x
MVV Land	1,830	4,200 acres of land at RM10.00psf
Cash/(Net Debt)	(4,083)	
Total Valuation	16,335	
Target price (RM/share)	2.40	2026F PE of 13x

Source: UOB Kay Hian, Sime Darby

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	70,061	72,744	73,401	74,093
EBITDA	4,348	3,154	3,247	3,257
Deprec. & amort.	1,269	1,201	1,190	1,180
EBIT	3,079	1,952	2,057	2,077
Total other non-operating income	-541	-377	-440	-433
Associate contributions	-541	-377	-440	-433
Net interest income/(expense)	3,051	2,084	2,130	2,164
Pre-tax profit	-663	-459	-469	-476
Tax	-264	-364	-367	-370
Minorities	2,054	1,262	1,295	1,317
Net profit	1,160	1,262	1,295	1,317
Net profit (adj.)	70,061	72,744	73,401	74,093

Balance Sheet

Year to 30 Jun (RMm)	2024	2025F	2026F	2027F
Fixed assets	24,470	23,056	22,595	23,007
Other LT assets	1,737	880	880	880
Cash/ST investment	2,677	1,098	1,293	1,503
Other current assets	1,803	862	862	862
Total assets	47,180	50,464	51,305	52,188
ST debt	2,231	2,231	2,231	2,231
Other current liabilities	3,117	682	682	682
LT debt	4,891	4,891	4,891	4,891
Other LT liabilities	2,787	6,688	6,679	6,680
Shareholders' equity	20,385	20,761	21,170	21,600
Minority interest	2,960	3,324	3,691	4,061
Total liabilities & equity	47,417	50,450	51,315	52,221

Cash Flow

Year to 30 Jun (RMm)	2024	2025F	2026F	2027F
Operating	5291	567	2610	2616
Pre-tax profit	3051	2084	2130	2164
Tax	-789	-459	-469	-476
Deprec. & amort.	1269	1201	1190	1180
Working capital changes	-513	-509	-514	-519
Other operating cashflows	1121	978	989	995
Investing	-215	-981	-1044	-1036
Capex (growth)	0	0	0	0
Capex (maintenance)	-1088	-1088	-1088	-1088
Investments	0	0	0	0
Others	-111	107	44	52
Financing	-4970	-1370	-1370	-1370
Dividend payments	-954	-886	-886	-886
Issue of shares	0	0	0	0
Proceeds from borrowings	-2533	-484	-484	-484
Loan repayment	106	-1784	195	209
Others/interest paid	-1483	-484	-484	-484
Net cash inflow (outflow)	106	-1784	195	209
Beginning cash & cash equivalent	2775	2882	1098	1293
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	2882	1098	1293	1503

Key Metrics

Year to 30 Jun (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	6.2	4.3	4.4	4.4
Pre-tax margin	4.4	2.9	2.9	2.9
Net margin	2.9	1.7	1.8	1.8
ROA	4.9	2.9	2.9	3.0
ROE	11.0	6.7	6.8	6.8
Growth				
Turnover				
EBITDA	4%	4%	1%	1%
Pre-tax profit	15%	-27%	3%	0%
Net profit	40%	-32%	2%	2%
Net profit (adj.)	-39%	-39%	3%	2%
EPS	-15%	8%	3%	2%
Leverage	-15%	8%	3%	2%
Debt to total capital				
Debt to equity				
Net debt/(cash) to equity	30.5	29.6	28.6	27.8

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at the following link:
<https://research-api.uobkayhian.com/assets/disclaimer/df64a6ea-7980-447c-ae9e-fd19b93257dc> or by scanning the QR code below:



The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."